

**FOREST-WAVERLY TOWNSHIP
FIRE DEPARTMENT
CHEBOYGAN COUNTY, MICHIGAN**

Financial Statements
For the Year Ended
March 31, 2008

Prepared By:
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FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT

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RICHARD E. MAHLMEISTER



CERTIFIED PUBLIC ACCOUNTANT, P.C.

Member:

American Institute of Certified Public Accountants

Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

February 17, 2009

Members of the Board

Forest - Waverly Township Fire Department

Cheboygan County, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund of the ***Forest - Waverly Township Fire Department, Cheboygan County, Michigan***, as of and for the year ended March 31, 2008, which collectively comprise the ***Forest - Waverly Township Fire Department's*** basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***Forest - Waverly Township Fire Department's*** management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of the ***Forest - Waverly Township Fire Department, Cheboygan County, Michigan***, as of March 31, 2008, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 1 through 4 and 18, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Richard E. Mahlmeister, C.P.A.

Richard E. Mahlmeister, CPA, PC

FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Forest - Waverly Township Fire Department's (The Fire Department) annual financial report presents our discussion and analysis of The Fire Department's financial performance during the fiscal year ended March 31, 2008. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of The Fire Department as a whole and present a longer-term view of The Fire Department's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. The fund financial statements also report the Department's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Highlights

Net assets at March 31, 2008 were \$168,969, representing an increase of \$9,923 from the previous fiscal year.

Governmental Fund Highlights

The governmental fund activities of The Fire Department reported a fund balance of \$35,511, which represents an increase of \$5,474 from the previous fiscal year.

Capital Assets and Long-term Debt

\$158,136 of capital assets was acquired during the year. The Fire Department incurred additional long-term debt in the amount of \$154,636 and repaid \$20,420 of long-term debt during the fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of The Fire Department.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year ended March 31, 2008.

The remaining statements are fund financial statements, which focus on individual parts of The Fire Department in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about The Fire Department as a whole, using accounting methods used by private companies.

The statement of net assets includes all of The Fire Department's assets and liabilities. The statement of activities records all of the current year's revenues and expenses, regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between The Fire Department's assets and liabilities. This is one method to measure our financial health or position. Over time, increases or decreases in The Fire Department's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of The Fire Department, you may also consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities are reported as governmental activities, which include only the operations recorded in the General Fund; our only fund.

The comparison of net assets of governmental activities from year to year serves to measure a government's financial position.

Net Assets March 31,

	GOVERNMENTAL ACTIVITIES	
	2008	2007
Assets:		
Current assets	\$37,310	\$33,574
Capital assets (net)	302,246	162,313
Total assets	<u>339,556</u>	<u>195,887</u>
Liabilities:		
Current liabilities	3,199	3,669
Noncurrent liabilities	167,388	33,172
Total Liabilities	<u>170,587</u>	<u>36,841</u>
Net assets:		
Invested in capital assets, net of related debt	134,858	129,142
Unrestricted	34,111	29,904
Total Net Assets	<u>\$168,969</u>	<u>\$159,046</u>

The most significant portion of The Fire Department's net assets is the investment in capital assets (e.g. buildings, equipment and vehicles), less any related debt that is outstanding used to acquire or construct the asset. The Fire Department has \$34,111 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes the results of the changes in net assets of The Fire Department:

Change in Net Assets		
March 31,		
GOVERNMENTAL		
ACTIVITIES		
	2008	2007
REVENUES:		
Program revenues:		
Charges for services	\$3,800	\$500
Operating grants and contributions	3,511	1,125
General revenues:		
Contributions from local units	56,375	54,775
Interest income	675	393
Other income	-	476
Total Revenues	<u>64,361</u>	<u>57,269</u>
EXPENSES:		
Public safety	<u>54,438</u>	<u>60,056</u>
Total Expenses	<u>54,438</u>	<u>60,056</u>
NET ASSETS:		
Increase (decrease) in net assets	9,923	(2,787)
Beginning net assets	<u>159,046</u>	<u>161,833</u>
Ending net assets	<u>\$168,969</u>	<u>\$159,046</u>

Net assets increased by \$9,923. Both revenues and expenditures have remained fairly stable.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about The Fire Department's funds. Funds are used to account for specific activities or funding sources. Funds are established to account for funding of specific financial resources and to show proper expenditure of those resources.

The Fire Department has only the following type of fund:

Governmental Fund

The Fire Department's activities are included in one fund, classified in the governmental fund category. This fund is presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between The Fire Department's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUNDS

Governmental Fund Activities

The Department's fund activities remained consistent. The Department continued to provide fire protection to its participating units. The General Fund increased its fund balance by \$5,474, bringing the fund balance to \$35,511.

Capital Asset and Debt Administration

Capital Assets

At March 31, 2008, the Department's governmental activities had \$302,246 in net capital assets (land, buildings, equipment and fire service vehicles). There was \$158,136 in new capital assets purchased during the current year, which includes donated equipment and a new pumper/tanker truck that is under construction.

Long-Term Debt

The Department incurred additional debt, in the form of a capital lease, for a total of \$154,636, and repaid \$20,420 of long-term debt during the fiscal year by making the scheduled debt payments. Total debt outstanding at March 31, 2008 is \$167,388.

BUDGETARY HIGHLIGHTS

There are no differences between the original and actual budget.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Department's revenue continues to be dependent on continuing contributions from the participating government units, charges for services provided, and contributions from the public.

CONTACTING MANAGEMENT

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Forest - Waverly Township Fire Department's finances and to demonstrate The Department's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the Chairman, Vice-Chairman, or Secretary at 989.733.2373.



Tim Paulus
Chairman



Dawn Cryderman
Secretary

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT
STATEMENT OF NET ASSETS
MARCH 31, 2008

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
Cash and cash equivalents	\$37,310
Capital assets (net of accumulated depreciation)	<u>302,246</u>
<u>TOTAL ASSETS</u>	<u>339,556</u>
<u>LIABILITIES</u>	
Accounts payable	1,703
Accrued payroll taxes	96
Accrued interest	1,400
Noncurrent liabilities:	
Due within one year (capital lease)	9,679
Due within one year (related party)	4,811
Due in more than one year (capital lease)	129,244
Due in more than one year (related party)	<u>23,654</u>
<u>TOTAL LIABILITIES</u>	<u>170,587</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	134,858
Unrestricted	<u>34,111</u>
<u>TOTAL NET ASSETS</u>	<u>\$168,969</u>

The accompanying notes are an integral part of these financial statements.

**FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	TOTAL
Primary government					
Governmental activities					
Public safety	\$51,293	\$3,800	\$3,511	\$ -	(\$43,982)
Interest on noncurrent debt	3,145	-	-	-	(3,145)
Total governmental activities	\$54,438	\$3,800	\$3,511	\$ -	(47,127)
General Revenues					
Contributions from local units:					
Forest Township					24,800
Waverly Township					27,000
Other townships					4,575
Unrestricted interest income					675
Total general revenues					57,050
Change in net assets					9,923
Net assets, beginning of year					159,046
Net assets, end of year					\$168,969

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

**FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUND
MARCH 31, 2008**

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
Cash and cash equivalents	<u>\$37,310</u>
<u>TOTAL ASSETS</u>	<u>\$37,310</u>
 <u>LIABILITIES AND FUND EQUITY</u>	
LIABILITIES:	
Accounts payable	\$1,703
Accrued payroll taxes	<u>96</u>
TOTAL LIABILITIES	<u>1,799</u>
 <u>FUND EQUITY</u>	
Fund balance:	
Unreserved, undesignated	<u>35,511</u>
<u>TOTAL FUND EQUITY</u>	<u>35,511</u>
 <u>TOTAL LIABILITIES AND FUND EQUITY</u>	 <u>\$37,310</u>

The accompanying notes are an integral part of these financial statements.

**FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT
BALANCE SHEET - GOVERNMENTAL FUND
MARCH 31, 2008**

Reconciliation of fund balance on the balance sheet for the governmental activity
to the statement of net assets

FUND BALANCE - TOTAL GOVERNMENTAL FUND	\$35,511
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the funds.

Add: capital assets	486,469
Subtract: accumulated depreciation	(184,223)

Certain liabilities are not due and payable in the current period, and therefore
are not reported in the funds.

Subtract: noncurrent liabilities payable	(167,388)
Subtract: accrued interest on noncurrent liabilities	(1,400)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$168,969</u>
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The accompanying notes are an integral part of these financial statements.

FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED MARCH 31, 2008

REVENUES

Contributions from local units:

Forest Township	\$24,800
Waverly Township	27,000
Other townships	4,575
Charges for service	3,800
Interest	675
Contributions and donations	3,511

TOTAL REVENUES	64,361
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EXPENDITURES

Current:

Public safety:

Salaries	2,200
Fringe benefits	168
Contracted services	3,172
Administrative expenses	267
Fire department expenses	5,923
Firefighter gear	3,455
Communications	972
Utilities	4,450
Insurance	12,073
Other	410

Capital Outlay	158,136
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Debt service:

principal	20,420
interest	1,877

TOTAL EXPENDITURES	213,523
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REVENUES OVER (UNDER) EXPENDITURES	(149,162)
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OTHER FINANCING SOURCES

Capital lease proceeds	154,636
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NET CHANGE IN FUND BALANCE	5,474
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FUND BALANCE, BEGINNING OF YEAR	30,037
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FUND BALANCE, END OF YEAR	\$35,511
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The accompanying notes are an integral part of these financial statements.

FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED MARCH 31, 2008

Reconciliation of statement of revenues, expenditures and changes in fund balance of
the governmental fund to the statement of activities

CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$5,474

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, those costs
are allocated over their useful lives as annual depreciation expense in the statement
of activities.

Add: capital outlay capitalized during the current year	158,136
Subtract: depreciation expense	(18,203)

Noncurrent debt proceeds provide current financial resources to governmental funds
however, issuing debt increases noncurrent liabilities in the statement of net assets.
Repayment of debt principal is an expenditure in the governmental fund,
however, it reduces noncurrent liabilities in the statement of net assets.

Add: principal payments on noncurrent liabilities.	20,420
Subtract: capital lease proceeds	(154,636)

Some expenses reported in the statement of activities do no require the use of current
financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on noncurrent liabilities	132
Subtract: current year accrued interest on noncurrent liabilities	(1,400)

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$9,923</u>
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The accompanying notes are an integral part of these financial statements.

FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Forest-Waverly Fire Department (The Fire Department) is a joint venture organized to provide fire service, pursuant to Michigan P.A. 7 and 8 of 1967 (Interlocal Agreements), serving the Townships of Forest, Waverly and Walker (under contract) in Cheboygan County, Michigan. The Fire Department operates under an appointed board comprised of a Chairman, Vice-Chairman, Secretary and two appointed board members.

The accounting policies of the Forest-Waverly Township Fire Department, Cheboygan County, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity includes those of the Fire Department and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Fire Department has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

ECONOMIC DEPENDENCY

The Fire Department is economically dependent on annual contributions from the participating local units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on The Fire Department as a whole. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. The Fire Department's government-wide activities are considered governmental activities.

FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements (Continued)

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds. The Fire Department reports only one governmental fund.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental revenues are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Contributions from local governments, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when cash is received.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Fire Department reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Fire Department. It is used to account for all financial resources. Financing is provided primarily from contributions of the participating entities.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits and cash in saving accounts.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

There are no compensated absences or post-employment benefits to be recognized.

CAPITAL ASSETS

Capital assets include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are generally defined by the government as assets with an initial individual cost of \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciation is computed using the straight-line method.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	15 – 40 years
Equipment	5 – 20 years
Vehicles	5-15 years

FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

Reserved fund balances for governmental funds indicate that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which The Fire Department has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund.

The Fire Department follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Secretary submits to the Fire Department Board a proposed operating budget for the fiscal year commencing on April 1.
2. The separate Forest and Waverly Township Boards each individually review and approve the budget as proposed by The Fire Department Board.
3. Public hearings are conducted to obtain taxpayer comments.
4. Prior to March 31, the budget is legally enacted through passage of a resolution.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by The Fire Department Board.

FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Fire Department's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of The Fire Department for these budgetary funds were adapted to the activity level.

During the year The Fire Department incurred expenditures which exceeded the amount appropriated as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
GENERAL FUND:			
Capital outlay	\$ -	\$158,136	\$158,136

NOTE 3: CASH AND CASH EQUIVALENTS

The caption on the statement of net assets relating to cash and cash equivalents of \$37,310 represent deposits in one financial institution located in Michigan. The total deposits do not exceed \$100,000 and therefore, are covered by the Federal Deposit Insurance Corporation (FDIC). All accounts are in the name of The Fire Department. They are recorded in The Fire Department records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Fire Department to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Fire Department's deposits and investment policy are in accordance with statutory authority.

FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

NOTE 4: CAPITAL ASSETS

Capital asset activity for the current year was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Not being depreciated:</u>				
Vehicle under construction	\$ -	\$156,636	\$ -	\$156,636
<u>Being depreciated:</u>				
Building and Improvements	86,189	-	-	86,189
Equipment	72,596	1,500	-	74,096
Vehicles	169,548	-	-	169,548
Subtotal	328,333	158,136	-	486,469
Less accumulated depreciation	(166,020)	(18,203)	-	(184,223)
Total	\$162,313	\$139,933	\$ -	\$302,246

Depreciation in the amount of \$18,203 was charged to the public safety function.

NOTE 5: CAPITAL LEASE AND LONG-TERM DEBT/RELATED PARTY

Capital Lease

The Fire Department has a vehicle lease with Lease2, Inc. which met the criteria for capitalization under generally accepted accounting principles. The present value of the minimum lease payments of \$156,636 was capitalized at the inception of the lease using a 5.2% interest rate. The lease is payable in annual installments of \$16,897 through January, 2019. The vehicle leased, which as of March 31, 2008 was under construction, is included in capital assets at \$156,636.

The following is a schedule by years of future minimum lease payments required under the capital leases at March 31, 2008:

<u>Year Ended March 31,</u>	<u>Amount</u>
2009	\$16,897
2010	16,897
2011	16,897
2012	16,897
2013	16,897
2014-2018	84,483
2019	16,897
Total minimum payments due	185,865
Less amounts representing interest	(46,942)
Present value of net minimum lease payments	<u>\$138,923</u>

FOREST-WAVERLY TOWNSHIP FIRE DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

**NOTE 5: CAPITAL LEASE AND LONG-TERM DEBT/RELATED PARTY
(CONTINUED)**

Long-term Debt / Related Party

Forest Township provided funds to The Fire Department in the form of a loan for the purpose of building an addition to the fire hall in the amount of \$42,632, payable in quarterly installments of \$1,800, plus interest at 2%, through July, 2013.

A summary of long-term obligations related to the capital lease agreement and related party debt for the year ended March 31, 2008, as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due in One Year</u>
Capital lease-Lease2, Inc.	\$ -	\$154,636	\$15,713	\$138,923	\$9,679
Forest Township, building addition-related party	33,172	-	4,707	28,465	4,811
Total	<u>\$33,172</u>	<u>\$154,636</u>	<u>\$20,420</u>	<u>\$167,388</u>	<u>\$14,490</u>

The annual requirements for five years ending March 31, 2009 and thereafter are as follows:

<u>Year Ended March 31,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$14,490	\$7,806
2010	15,100	7,196
2011	15,739	6,558
2012	16,407	5,889
2013	17,107	5,190
2014-2018	72,483	15,344
2019	<u>16,062</u>	<u>835</u>
Total	<u>\$167,388</u>	<u>\$48,818</u>

Interest expense for the year ended March 31, 2006 was \$3,145.

NOTE 6: LEASE

The Fire Department leases the land for the fire hall from Forest Township. The term of the lease is 50 years; through December 30, 2037. Annual cost of the lease is \$1.

NOTE 7: RISK MANAGEMENT

The Fire Department is exposed to various risks of loss related to property loss, torts, errors and omissions, suits, complaints and employee injuries. In the opinion of management, all such potential matters are adequately covered by insurance and would not have a significant effect on the financial position or results of operations of The Fire Department. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

FOREST - WAVERLY TOWNSHIP FIRE DEPARTMENT
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES				
Contributions from local units:				
Forest Township	\$24,800	\$24,800	\$24,800	\$ -
Waverly Township	27,000	27,000	27,000	-
Other townships	4,575	4,575	4,575	-
Charges for service	1,000	1,000	3,800	2,800
Interest	100	100	675	575
Contributions and donations	1,010	1,010	3,511	2,501
Other	115	115	-	(115)
TOTAL REVENUES	58,600	58,600	64,361	5,761
EXPENDITURES				
Current:				
Public safety:				
Salaries	2,520	2,520	2,200	320
Fringe benefits	250	250	168	82
Contracted services	2,300	2,300	3,172	(872)
Administrative expenses	500	500	267	233
Fire department expenses	5,765	5,765	5,923	(158)
Firefighter gear	4,575	4,575	3,455	1,120
Communications	1,000	1,000	972	28
Utilities	4,300	4,300	4,450	(150)
Insurance	14,825	14,825	12,073	2,752
Other	165	165	410	(245)
Capital Outlay	-	-	158,136	(158,136)
Debt service:				
principal	20,500	20,500	20,420	80
interest	1,900	1,900	1,877	23
TOTAL EXPENDITURES	58,600	58,600	213,523	(154,923)
REVENUES OVER (UNDER) EXPENDITURES	-	-	(149,162)	(149,162)
OTHER FINANCING SOURCES				
Capital lease proceeds	-	-	154,636	154,636
NET CHANGE IN FUND BALANCE	-	-	5,474	5,474
FUND BALANCE, BEGINNING OF YEAR	30,037	30,037	30,037	-
FUND BALANCE, END OF YEAR	\$30,037	\$30,037	\$35,511	\$5,474

February 17, 2009

**COMMUNICATION OF SIGNIFICANT DEFICIENCIES AND MATERIAL
WEAKNESSES IN INTERNAL CONTROL AND OTHER MATTERS**

Members of the Board
Forest - Waverly Township Fire Department
Cheboygan County, Michigan

In planning and performing my audit of the financial statements of the ***Forest - Waverly Township Fire Department*** as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, I considered the Forest - Waverly Township Fire Department's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Forest - Waverly Township Fire Department's internal control. My consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls, and accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, I do not express an opinion on the effectiveness of the Forest - Waverly Township Fire Department's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control that I consider to be significant deficiencies and a deficiency that I consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

I consider the following deficiency to be significant deficiencies in internal control:

Lack of Segregation of Duties

Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

This condition is generally inherent in organizations the size of the Forest - Waverly Township Fire Department, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

I believe the following deficiencies constitute material weaknesses:

Financial Statement Preparation

The Forest - Waverly Township Fire Department does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures.

However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

In addition, I noted other matters for your consideration:

Budget Hearing

Though the individual participating township governments review and approve the annual budget, a budget needs to be held for the general public, prior to the formal adoption of the budget and prior to the beginning of the fiscal year.

I recommend that the Forest - Waverly Township Fire Department adjust its budgeting procedures to include this requirement.

Budget Amendments

I noted that though the Board approved large capital outlay expenditures, the budget was not amended for these expenditures. When making these expenditures, the budget needs to be formally amended and documented in the minutes and then reflected in the accounting records.

Due Date For Filing of Audit Report

As a reminder, the State of Michigan requires that governmental units in Michigan file their annual audit reports to the Michigan Department of Treasury within six months after the end of its fiscal year. For the Forest – Waverly Township Fire Department, that due date would be September 30th.

I suggest that the Board make every effort to comply with this requirement in the next audit cycle. I would be pleased to help you meet this requirement.

Capital Assets

I recommend that the Board review the policy as to which assets should be recorded as a capital asset. The *Government Officer's Finance Association* (GFOA) recommends that assets that have a useful life of at least one-year and a cost of \$5,000 be included as a capital asset. I further would recommend that the Board make this threshold, at least, in the range \$1,000 to \$2,000. Adopting a capitalization policy with these minimums would exclude assets of minimal value and would make the record keeping less cumbersome and would create more useful capital asset information.

This communication is intended solely for the information and use of management and the Members of the Board of ***Forest - Waverly Township Fire Department***, and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the opportunity to serve ***Forest - Waverly Township Fire Department***. Best wishes in the next year.

Sincerely,



Richard E. Mahlmeister, C.P.A.
Richard E. Mahlmeister, C.P.A., P.C.

February 17, 2009

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board
Forest - Waverly Township Fire Department
Cheboygan County, Michigan

I have audited the financial statements of the governmental activities and the major fund, of Forest - Waverly Township Fire Department, and have issued my report thereon dated February 17, 2009. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter dated April 21, 2008, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you on April 21, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Forest - Waverly Township Fire Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was determining depreciation expense. I evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated February 17, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

Auditing standards require me to report to you significant audit findings or issues. Following are the significant findings I noted during my audit:

- There is a lack of segregation of duties in the accounting function due to the limited number of accounting personnel. This condition is generally inherent in organizations the size of Forest - Waverly Township Fire Department, where corrective action is not practical, and to the extent possible, duties are allocated between accounting personnel to mitigate the risk of material asset misappropriation.
- Forest - Waverly Township Fire Department does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures. However, small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

Additionally I have presented other matters for your consideration in the same letter dated February 17, 2009.

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the Board and management of Forest - Waverly Township Fire Department and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Richard E. Mahlmeister, C.P.A.
Richard E. Mahlmeister, C.P.A., P.C.